



The Real Estate ANALYST

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HOW MUCH WILL RENT AND VALUE LEVELS RISE DURING THE NEXT BOOM?

IN an effort to answer the question of how high rents and values will go during the next boom, we have been analyzing very carefully the individual records of as many cities as possible in order to determine whether there was any consistent relationship between the height of the rise in each city during the last boom and other measurable factors. On pages 486 and 487 we show the rent experience from 1916 to the present for thirty-two American cities. It will be noticed immediately that the curves vary greatly in different cities. If the reasons can be found why rents during the last boom increased by a greater percentage in some cities than they did in others, some general principles may be found which will enable us to predict the probable trends during the next few years.

Let us get several points well in mind before we proceed with our attempted analysis. The sequence of events in a major rise in rents is always the same.

1. Due to one of several causes the general commodity price level rises. This has always been accompanied by a rise in building costs.
2. The rise in building costs prevents any volume of new building, as it now costs more to construct a building than to buy a comparable structure already built.
3. The rise in the general price level is almost always coincident with an improvement in general business conditions. The improvement in business increases employment, and families doubled up during the depression expand to separate dwelling quarters. At the same time the marriage rate increases. These two factors cause the rapid absorption of the surplus space on the market, with the result that tenants compete for desirable space, forcing it up in price.

This sequence has been stressed repeatedly in the Real Estate Analyst. We find as a result of the study of rent fluctuations in thirty-two cities shown in this issue, however, that the foregoing statement, while correct, is not complete. It is necessary to add the following:

Provided sufficient demand develops, rents and values will continue to rise until they have brought values of buildings already constructed into harmony with new construction costs. If the demand is intense, values will go far beyond replacement cost, furnishing a strong incentive to produce enough new buildings to

restore a rough equilibrium. If, on the other hand, demand never reaches the point where it seriously exceeds the supply of acceptable accommodations, values will not rise to replacement cost.

There is always some building being done which may be termed "irrational building". By this we mean building which is done regardless of cost. There are always people who insist on building homes on which they spend more than comparable structures already built would cost. If the demand for housing units in a city is not greatly in excess of the supply, this small amount of irrational building will increase the supply sufficiently to balance the two before an equilibrium between replacement cost and value can be reached, meaning that in such communities values and rents will not increase to the levels of replacement costs.

Let us study a few individual cities shown on the charts on pages 486 and 487. Portland, Maine, is, of course, the most striking, as apparently rents there underwent a smaller rise than they did in any of the other cities charted. If we study the population records, we find that Portland, Maine, showed the smallest percentage of increase in the number of families from 1920 to 1930 of any of the thirty-two cities. Los Angeles, on the other hand, had the largest percentage of increase in families and had one of the largest percentages of increase in rents.

In eight of the cities listed government surveys are available on the ages of dwelling structures standing in 1933. If in these cities the number of buildings which have been built since 1918 is compared with the number built prior to 1918, the resulting percentages will show the relative importance of the post-war building boom in each city.

These percentages, together with the percentages of increase in rents during the last boom for these cities, are shown in the table below:

	Homes Built		% After 1918 to Before 1918	% Increase in Rent During Last Boom
	Before 1918	After 1918		
Portland, Me.	8,312	2,122	26%	30%
Richmond, Va.	27,869	13,309	48	42
Indianapolis, Ind.	61,639	33,064	54	50
Atlanta, Ga.	39,991	29,173	73	80
Seattle, Wash.	54,345	47,582	88	80
Portland, Oreg.	50,382	43,042	86	85
Birmingham, Ala.	44,752	37,929	85	95
Jacksonville, Fla.	19,160	16,263	85	108

It will be noticed that without exception the cities in which a great deal of building was done during the last boom are the ones in which rents increased by the largest percentages. This fact presents several rather interesting questions:

1. Is this relationship due primarily to the fact that a rapid growth in the city caused a housing shortage which raised rents materially, making it profitable to build; or
2. Was the increase in rents and values primarily due to the fact that the large volume of building which took place at

high costs raised the mass opinion of value, even for older properties, to the levels of the new costs?

While we would confidently assert the greater importance of the necessity of a relative shortage of space as the originating cause of the rise in rents, there can be no question of the fact that unless a large enough percentage of new building takes place, replacement cost does not in any sense become a measure of value.

This being the case, the following developments might take place simultaneously in different cities of the United States:

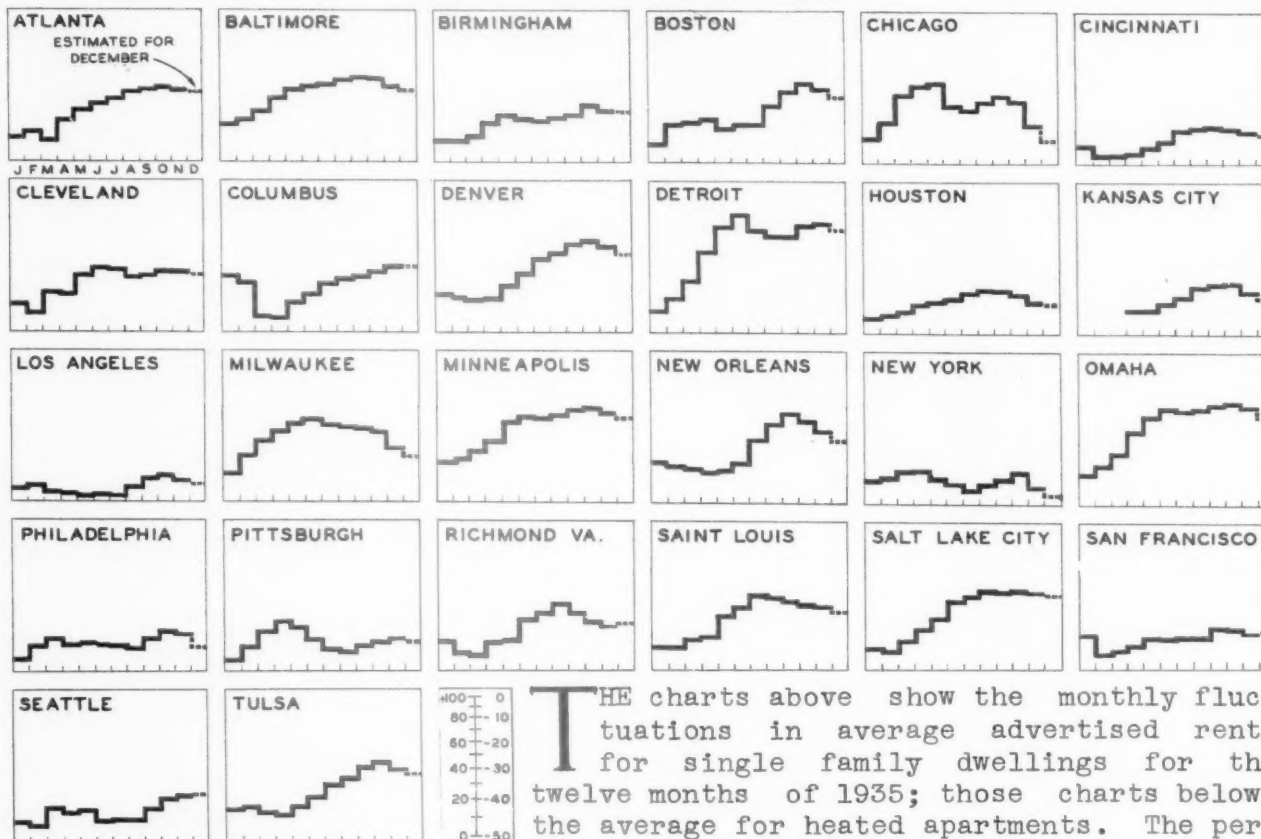
1. Rapidly growing communities will experience a rapid rise in rents and values on average properties, which, if growth is rapid enough, will for awhile send rents beyond replacement costs.
2. In cities in which the growth is not so rapid rents and values may not keep pace with increases in construction costs.
3. In communities which are stationary in population, replacements of buildings demolished will make higher replacement costs only partially effective in raising rents.
4. It is possible for a community to be losing population at a rate sufficient to offset building fatalities, making it practically unnecessary to do any volume of building. In such a community rents and values will not rise materially in spite of the fact that replacement costs might rise sharply. It is quite essential, however, that all housing units in competition in any community be included in any effort to forecast rent and value levels. The increased population in Brooklyn, for example, is effective in raising rents in Manhattan; although Manhattan, due to the encroachment of business, has been shrinking in resident population for a score of years. In addition acceptable dwelling units in Manhattan have been shrinking in number faster than the demand for them has shrunk. This, without the influence of the other boroughs, is sufficient to raise rents there materially.

Our problem of how high rents and values will rise during the next boom on average properties in any city is, therefore, at least partially dependent upon the amount of new building which must be done and on the cost level of this building. If building costs generally in the United States rise materially during the next few years, as we think likely, one of the fundamentals necessary to a rise in average real estate values has been taken care of. In order to make this effective in any metropolitan area, however, a considerable volume of building must be necessary.

Most of our larger cities have lost population during the height of the depression. The tide is now turning back to the cities at the expense of the rural communities. No building has been done in these cities during a period of more than five years. We think that most communities will find a sufficient need for replacements to make higher construction costs effective in raising values very materially.

AVERAGE ADVERTISED SINGLE FAMILY DWELLING RENTS 1935

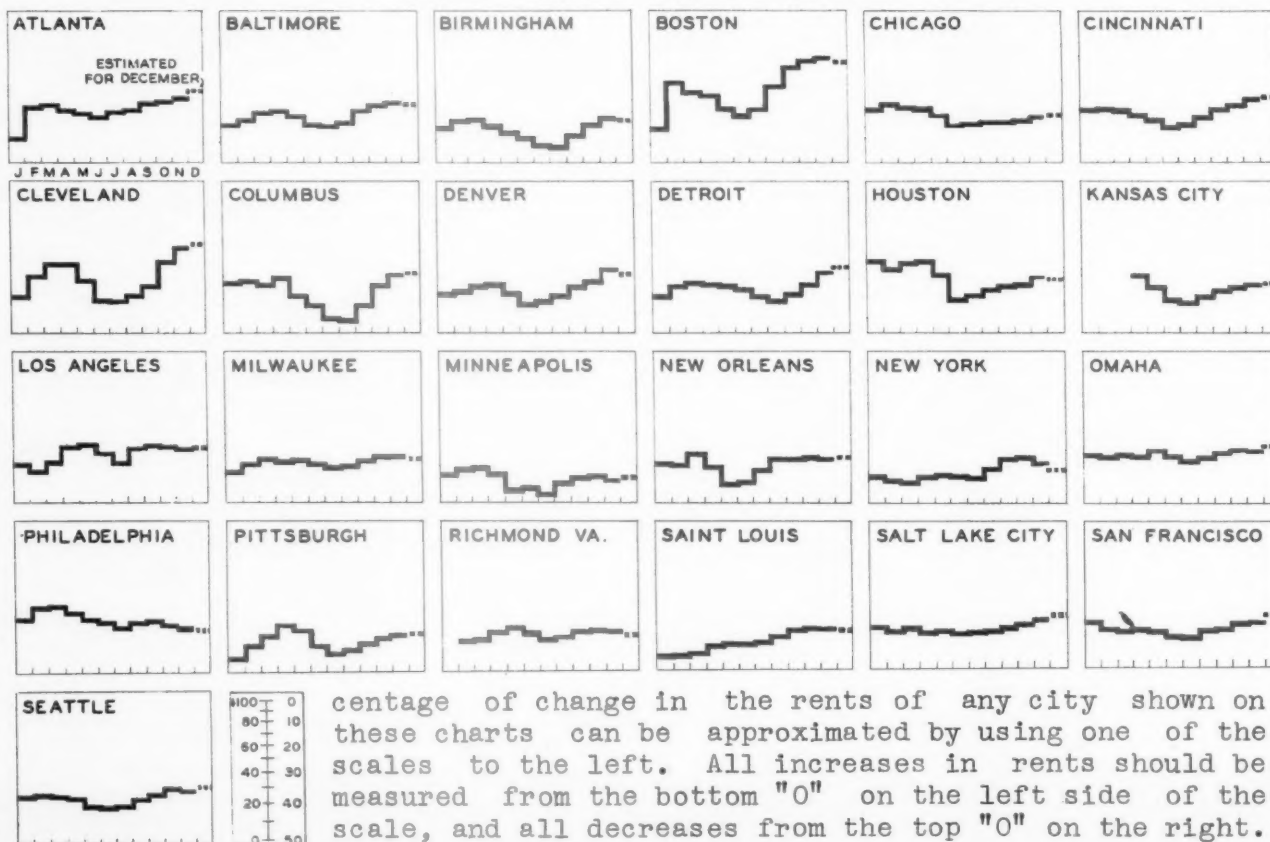
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THE charts above show the monthly fluctuations in average advertised rents for single family dwellings for the twelve months of 1935; those charts below, the average for heated apartments. The per-

AVERAGE ADVERTISED APARTMENT RENTS 1935

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centage of change in the rents of any city shown on these charts can be approximated by using one of the scales to the left. All increases in rents should be measured from the bottom "0" on the left side of the scale, and all decreases from the top "0" on the right.

ADVERTISED RENTALS ON DWELLING UNITS

THE Real Estate Analyst computes the average advertised rents of residential units of various types each month in the twenty-six metropolitan cities listed below. The figures given are average rents per month per room for all units of each type, large and small, advertised in the classified columns of the leading newspapers of each city. The average of all places advertised for rent will vary con-

siderably from month to month due to the inclusion some months of a larger number of either high or low priced units. That the trend is definitely up in most cities is indicated by the figures below and the charts opposite.

The December figures are preliminary, based on the advertisements appearing during the first two weeks of the month.

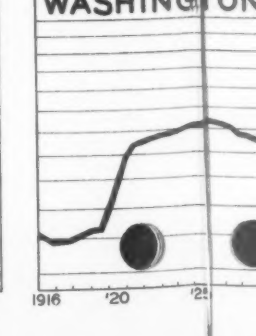
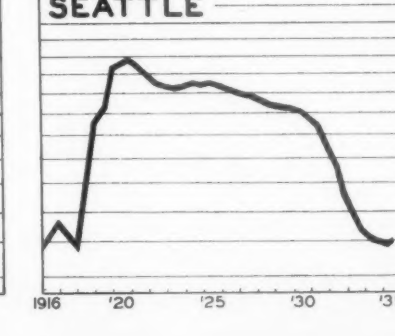
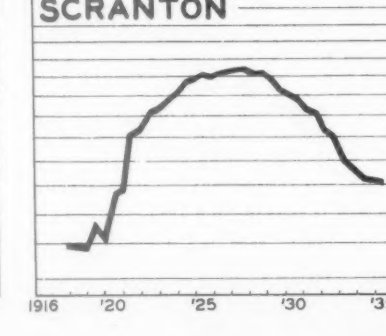
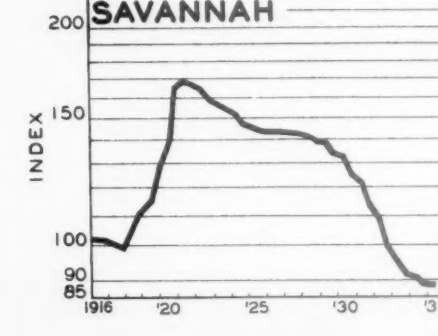
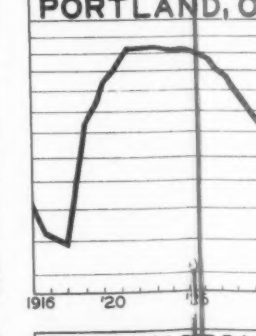
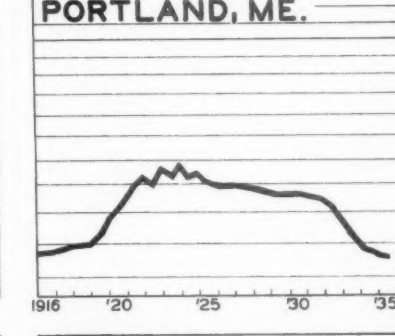
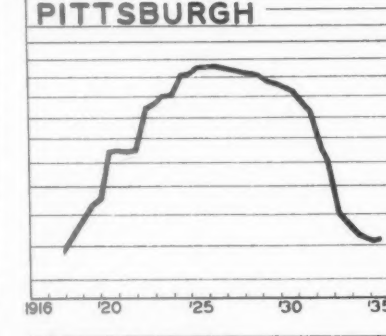
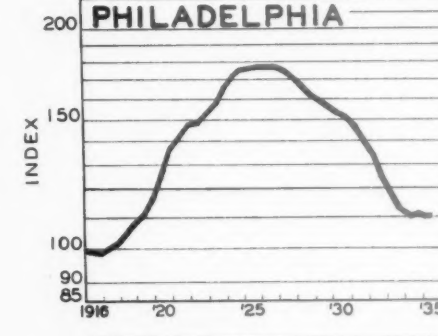
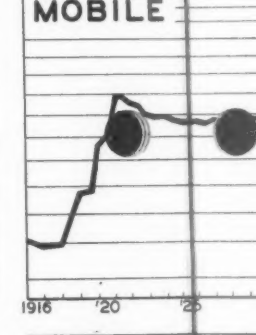
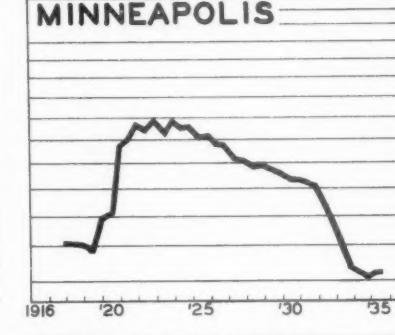
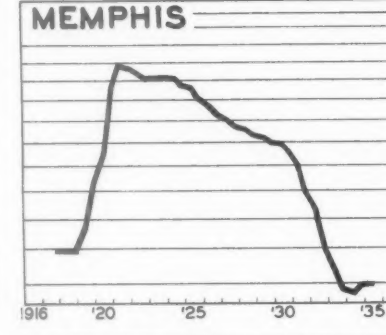
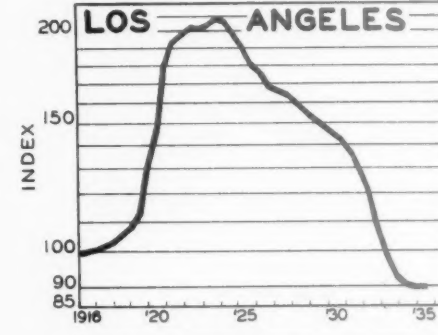
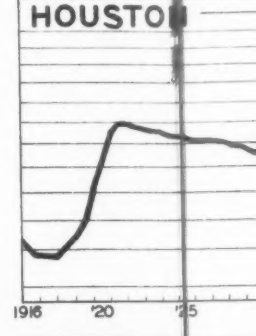
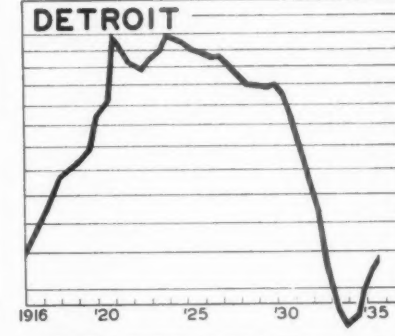
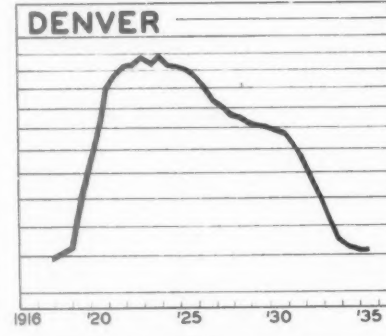
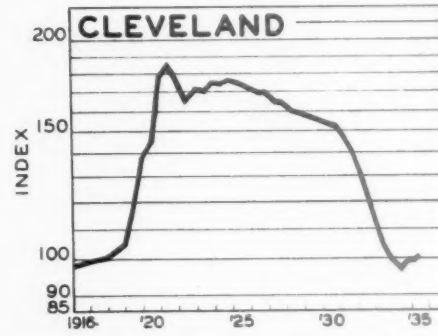
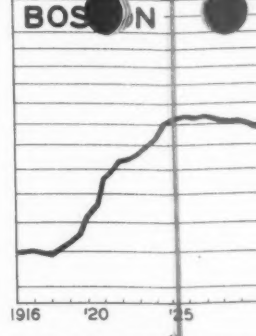
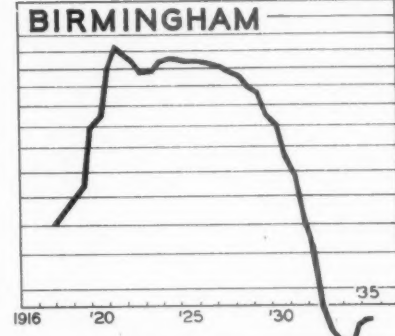
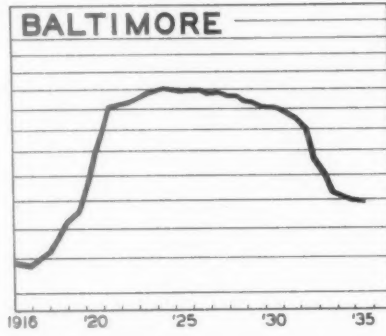
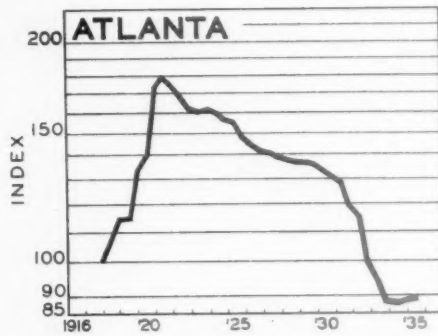
	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	*Dec.
Atlanta	\$5.66	\$5.74	\$5.56	\$6.14	\$6.47	\$6.62	\$6.78	\$6.93	\$7.09	\$7.25	\$7.12	\$7.07
Baltimore	4.86	4.98	5.19	5.51	5.77	5.86	5.88	6.10	6.16	6.15	5.79	5.66
Birmingham	4.43	4.43	4.57	4.85	5.01	4.96	4.90	4.94	5.06	5.22	5.15	5.13
Boston	6.04	6.65	6.70	6.85	6.51	6.69	6.68	7.34	7.91	8.11	7.89	7.52
Chicago	7.99	8.59	9.86	10.34	10.46	9.21	8.94	9.39	9.84	9.45	8.42	7.89
Cincinnati	7.66	7.33	7.33	7.35	7.60	7.33	8.14	8.20	8.22	8.16	8.23	8.07
Cleveland	6.93	6.64	7.34	7.29	7.95	8.18	8.02	7.88	7.94	8.11	8.08	7.95
Columbus	5.31	5.17	4.35	4.35	4.65	4.88	5.07	5.21	5.31	5.45	5.59	5.58
Denver	4.89	4.78	4.72	4.75	5.08	5.39	5.75	6.07	6.31	6.35	6.11	5.85
Detroit	5.73	6.02	6.60	7.67	8.59	9.13	8.40	8.18	8.18	8.75	8.75	8.44
Houston	6.44	6.53	6.69	6.96	7.02	7.18	7.32	7.39	7.38	7.24	7.10	7.03
Kansas City	-	-	-	4.51	4.51	4.64	4.79	4.98	5.08	5.10	4.96	4.82
Los Angeles	8.43	8.52	8.33	8.29	8.12	8.13	8.02	8.48	8.85	8.97	8.87	8.67
Milwaukee	6.94	7.60	8.21	8.58	8.91	9.08	8.81	8.61	8.52	8.36	7.87	7.53
Minneapolis	4.89	4.97	5.19	5.39	5.94	6.08	6.06	6.15	6.31	6.36	6.18	6.03
New Orleans	4.87	4.79	4.70	4.65	4.69	4.85	5.39	5.88	6.20	5.98	5.71	5.44
New York	12.20	12.28	12.68	12.75	12.35	11.98	11.59	11.96	12.23	12.57	11.82	11.51
Omaha	4.69	4.86	5.13	5.73	6.15	6.43	6.35	6.37	6.50	6.59	6.45	6.17
Philadelphia	5.38	5.58	5.76	5.58	5.67	5.63	5.63	5.48	5.77	6.01	6.02	5.65
Pittsburgh	6.29	6.72	7.28	7.67	7.43	6.99	6.62	6.52	6.70	6.89	7.03	6.93
Richmond	5.82	5.50	5.42	5.80	5.86	6.45	6.66	7.03	6.66	6.44	6.24	6.31
Saint Louis	5.69	5.64	5.89	5.97	6.55	6.82	7.24	7.11	7.05	6.91	6.81	6.66
Salt Lake City	4.44	4.39	4.66	4.90	5.18	5.56	5.66	5.76	5.74	5.82	5.83	5.78
San Francisco	7.15	6.50	6.62	6.78	7.07	7.03	7.06	7.07	7.31	7.28	7.19	7.25
Seattle	5.02	4.97	5.33	5.28	5.30	5.05	5.07	5.07	5.31	5.56	5.62	5.65
Tulsa	5.85	5.97	5.77	5.68	5.92	6.21	6.53	6.76	7.17	7.33	7.16	6.93
Atlanta	8.42	9.80	9.90	9.65	9.52	9.38	9.58	9.68	10.01	10.19	10.33	10.68
Baltimore	10.83	11.27	12.09	12.23	11.79	10.88	10.72	11.04	11.59	11.97	12.04	12.00
Birmingham	8.36	8.62	8.63	8.38	8.12	7.93	7.63	7.61	8.00	8.48	8.71	8.64
Boston	9.55	11.75	11.36	11.16	10.44	10.12	10.40	11.59	12.68	13.17	13.46	13.11
Chicago	11.68	12.32	11.86	11.79	11.49	10.88	10.92	11.04	11.04	11.15	11.35	11.90
Cincinnati	10.70	10.82	10.67	10.30	9.93	9.57	9.72	10.10	10.78	11.24	11.40	11.41
Cleveland	8.43	9.24	9.84	9.84	9.14	8.26	8.22	8.49	8.88	9.99	10.54	10.98
Columbus	9.01	9.09	8.89	9.22	8.40	8.06	7.56	7.52	8.06	8.89	9.34	9.37
Denver	9.70	9.88	10.08	10.14	9.76	9.24	9.40	9.60	10.06	10.65	10.95	10.76
Detroit	9.60	10.08	10.47	10.37	10.36	10.00	9.65	9.45	9.73	10.22	10.87	11.11
Houston	8.68	8.38	8.63	8.66	8.13	7.20	7.39	7.54	7.70	7.77	7.91	7.87
Kansas City	-	-	-	7.05	6.65	6.24	6.18	6.36	6.52	6.67	6.73	6.76
Los Angeles	10.23	9.76	10.38	11.18	11.28	10.85	10.43	11.11	11.27	11.23	11.17	11.21
Milwaukee	9.32	9.70	9.97	9.83	9.91	9.70	9.56	9.63	9.87	10.10	10.09	10.05
Minneapolis	8.89	9.09	9.17	8.81	8.21	8.31	8.06	8.48	8.78	8.81	8.76	8.78
New Orleans	8.23	8.22	8.73	8.21	7.52	7.54	8.01	8.48	8.48	8.55	8.53	8.55
New York	17.29	16.87	16.77	17.13	17.18	17.24	17.10	17.85	18.69	18.92	18.30	17.65
Omaha	10.30	10.29	10.33	10.18	10.45	10.17	9.87	10.13	10.32	10.40	10.43	10.56
Philadelphia	13.66	14.57	14.61	14.22	13.79	13.55	13.24	13.40	13.63	13.37	13.24	13.09
Pittsburgh	8.81	9.43	9.88	10.21	9.91	9.24	8.91	9.02	9.35	9.56	9.70	9.77
Richmond	-	9.56	9.57	9.99	10.23	9.89	9.62	9.66	10.03	10.07	9.96	9.88
Saint Louis	8.62	8.66	8.76	9.07	9.19	9.19	9.22	9.41	9.76	9.81	9.81	9.68
Salt Lake City	9.22	9.08	9.20	8.99	9.08	8.92	9.01	9.06	9.22	9.38	9.68	9.81
San Francisco	11.36	10.92	10.67	10.78	10.67	10.52	10.50	10.82	10.90	11.33	11.41	11.79
Seattle	10.10	10.24	10.21	10.05	9.69	9.51	9.65	10.06	10.21	10.58	10.48	10.55

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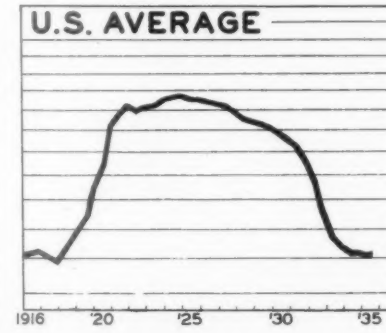
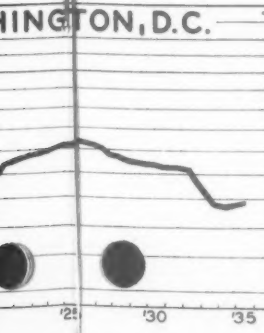
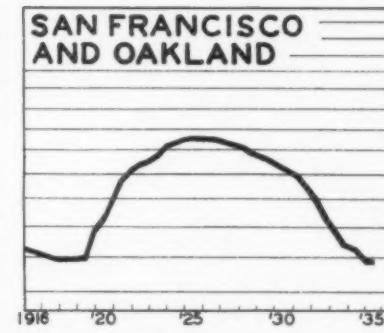
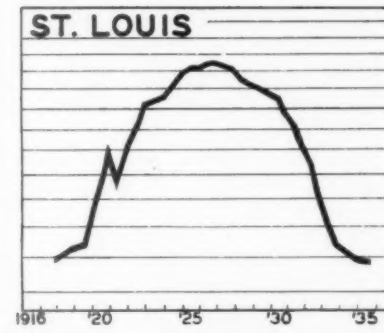
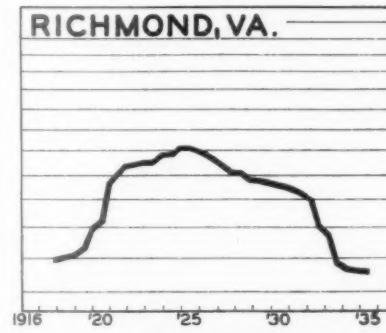
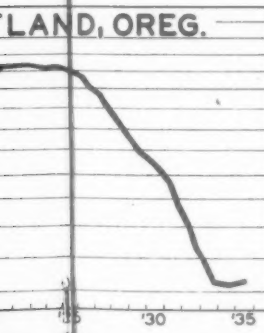
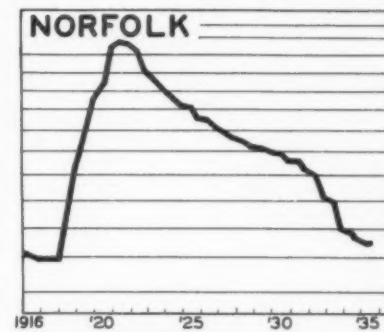
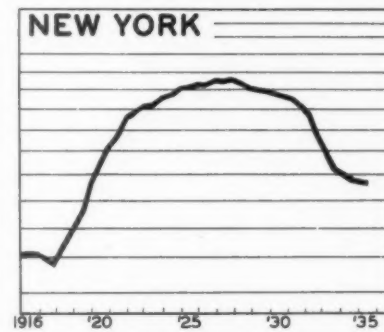
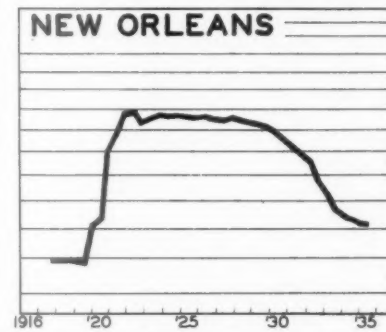
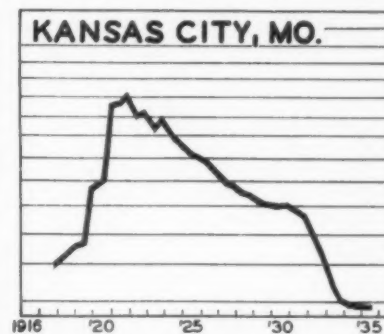
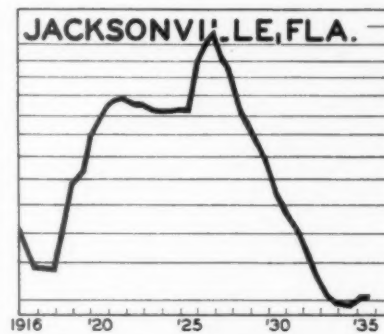
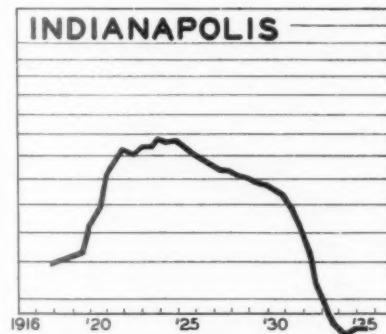
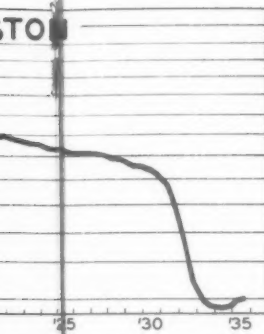
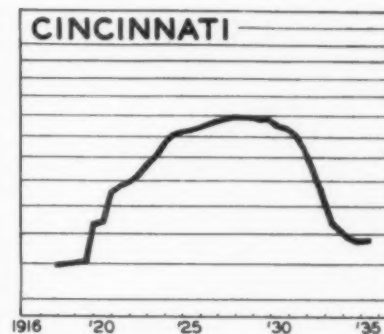
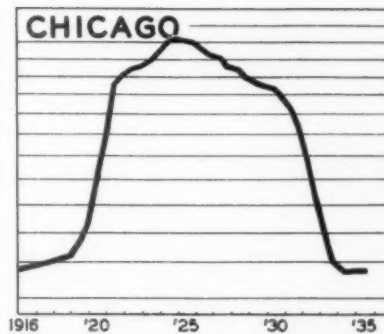
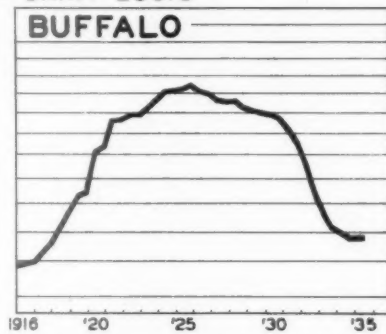
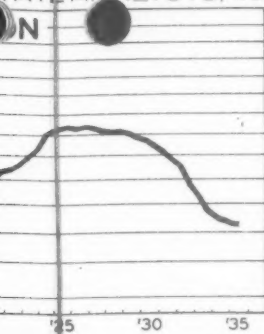
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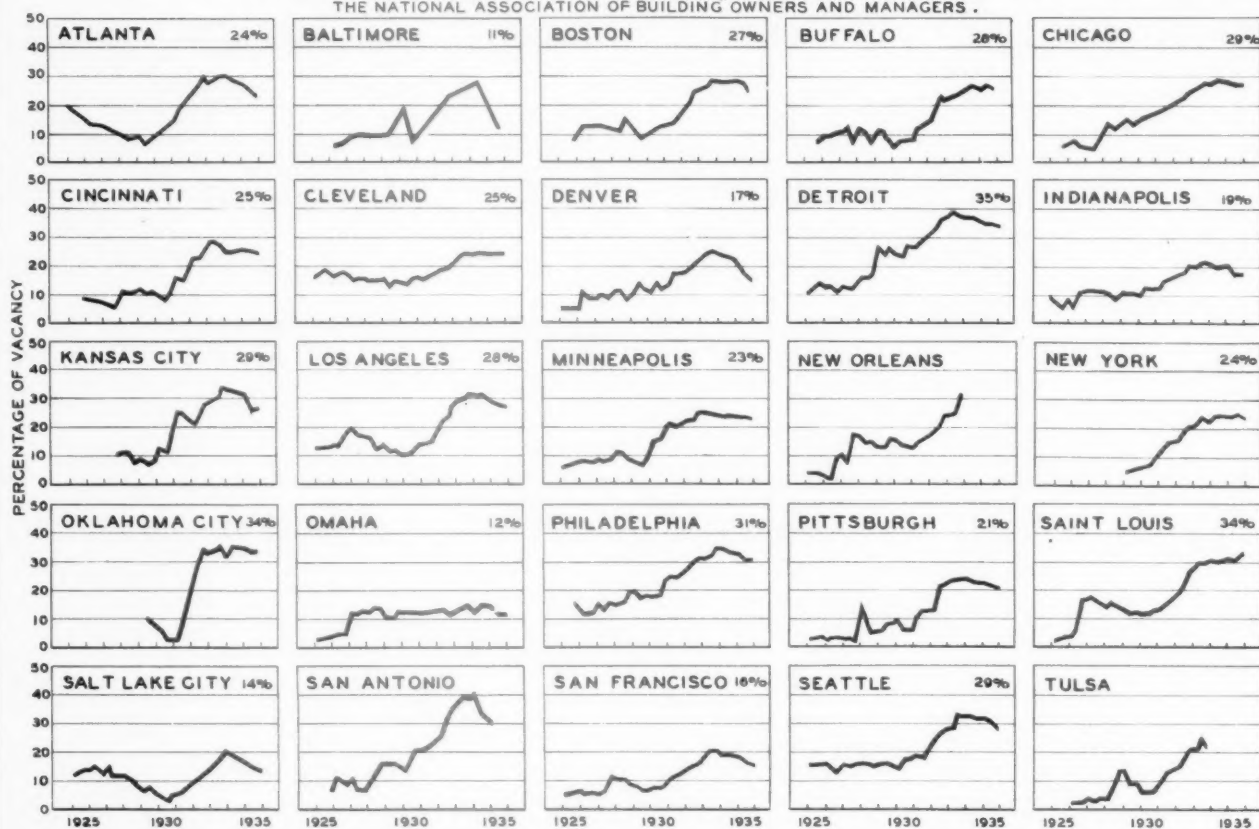


THE charts above are based on rents paid by families of wage earners and lower salaried groups in the various cities. The number of dwellings on which the charts are based varies from a minimum of four hundred in Mobile to twenty-five hundred in New York City.

In most cities 1917 was used as one hundred, but in those cities where rent increases had started prior to that date, the charts were drawn on a base which would make them more nearly comparable with the other cities. The last chart shows the average of the thirty-two cities.

OFFICE BUILDING VACANCY IN PRINCIPAL CITIES.

CHARTED BY REAL ESTATE ANALYSTS, INC. FROM DATA FURNISHED BY THE NATIONAL ASSOCIATION OF BUILDING OWNERS AND MANAGERS.



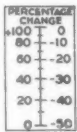
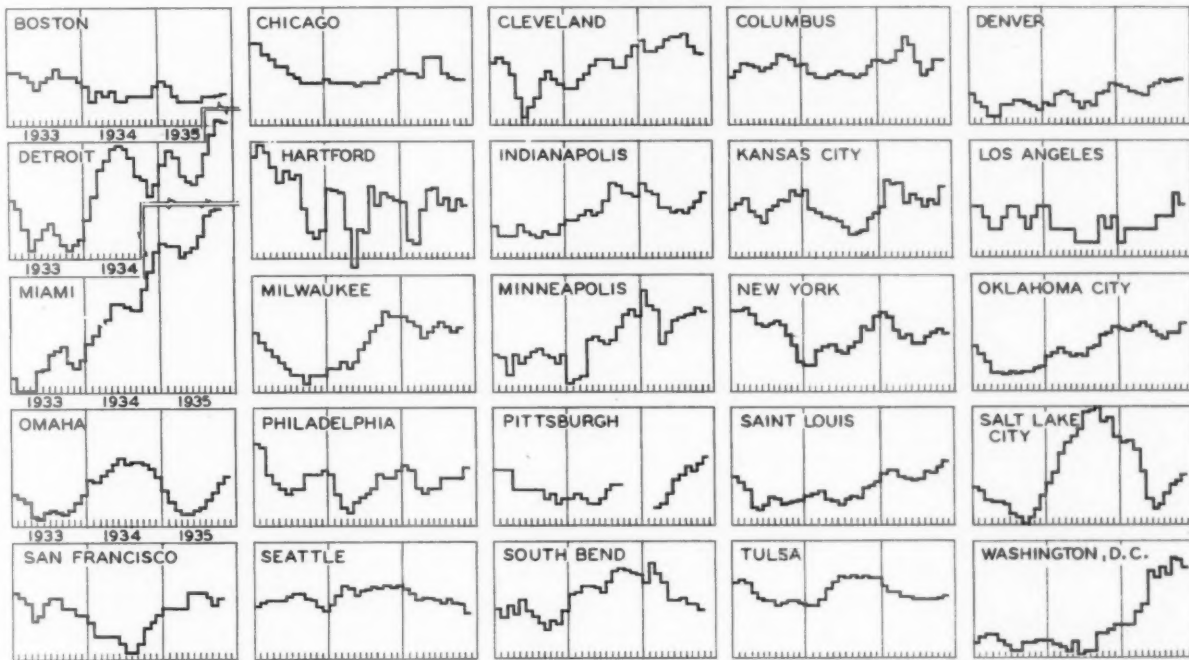
UNTIL our long charts are ready on real estate activity in New York from 1868 to the present, we will continue to use such information as now exists. The chart below, which has been corrected for seasonal fluctuation and for the decrease in the number of families, shows the fluctuations in the number of voluntary transfers of real estate in contrast with the fluctuations in the number of transfers under foreclosure from 1931 to the current month. The small percentage scale in the lower right hand corner can be used in determining the percentage of increase or decrease in the figures each month.



We are now working on similar figures on the other boroughs, as during 1936 we hope to give those interested in New York real estate activity a fairly complete picture.

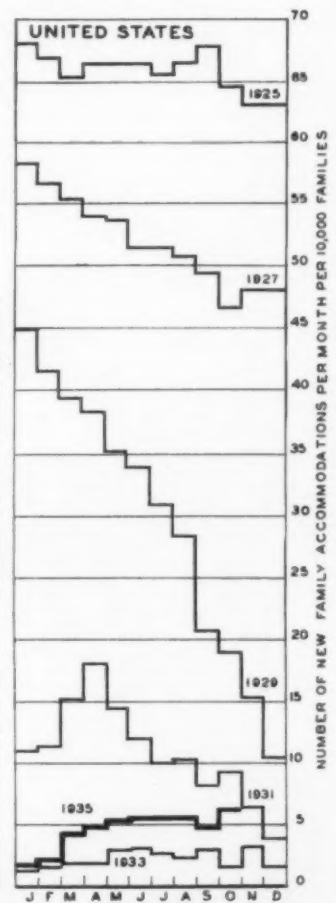
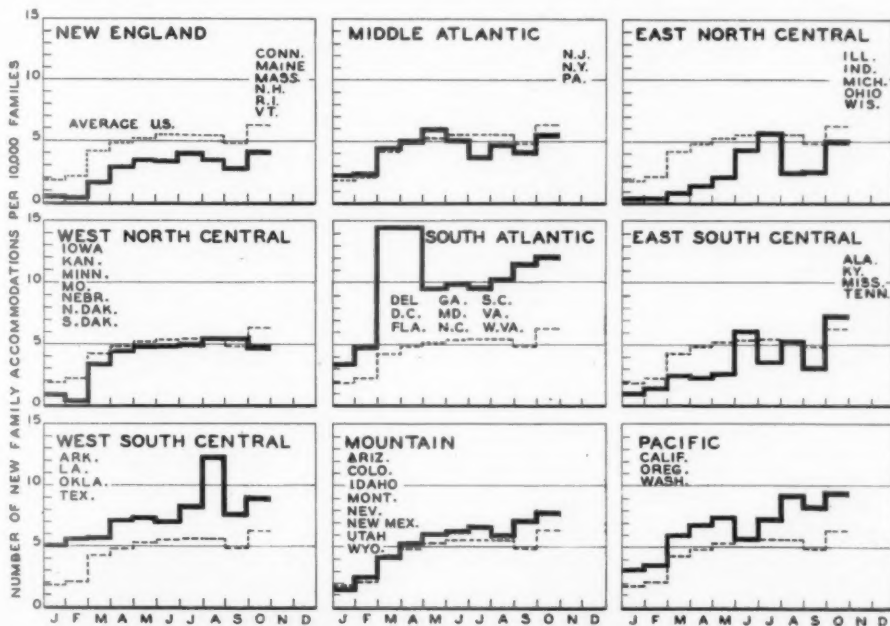
REAL ESTATE TRANSFERS IN PRINCIPAL CITIES 1933-1934-1935

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RESIDENTIAL BUILDING IN THE UNITED STATES

The nine small charts below show the monthly volume of residential building in the various regions for the first ten months of 1935. The tall chart at the right is drawn to the same scale as the smaller charts and compares the present volume of building in the United States with the volume for a number of past years. In each chart the volume of new building is expressed as the number of new family accommodations provided per month for each 10,000 families.



CUBIC COSTS

DECEMBER 1935



MODERN BRICK BUNGALOW

Bungalow, as shown and described in pages 122 and 123, exclusive of financing and sales commission... **27.6¢**
 With hot air heat, subtract..... 1.4
 Without vitrolite in kitchen, subtract..... 0.4
 With financing charges and sales commission, add.. 2.0

SINGLE FAMILY TWO-STORY RESIDENCE

Single family residence, described on pages 62 and 63, exclusive of financing and sales commission... **27.2¢**
 With copper guttering, spouting & flashing, add.. 0.4
 With variegated slate roofing, add..... 1.0
 With hot water heat, add..... 1.0
 Without tile walls in bath, subtract..... 0.5
 Without shower & with cheap plumbing, subtract... 0.3
 With ordinary millwork, subtract..... 0.6
 With financing and sales commission, add..... 2.2

SPECULATIVE FOUR-FAMILY FLAT

Speculative four family flat, as shown and described on pages 72 and 73, excluding cost of financing and sales commission..... **23.2¢**
 With copper guttering, spouting & flashing, add.. 0.1
 With steam heat, add..... 0.7
 With tile walls in baths, add..... 0.6
 With showers in baths, add..... 0.4
 With first class plumbing fixtures, add..... 0.1
 With financing and sales commission, add..... 1.3
 With first grade roofing, add..... 0.1

SINCE September, when the last series of construction costs was published, there have been comparatively slight changes. The small increases in some material prices have been offset by comparable drops in others, with the result that total cubic costs remain the same.

EIGHTEEN-FAMILY MASONRY APARTMENT

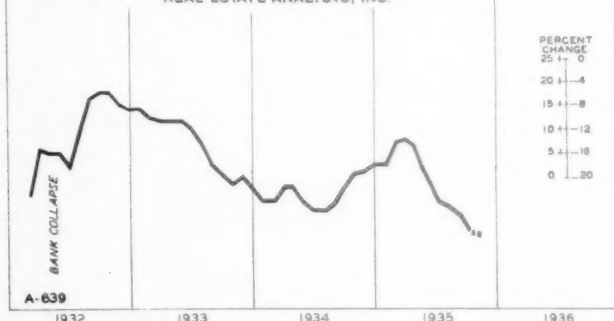
Eighteen family masonry apartment, as described on pages 82 and 83, excluding cost of financing and sales commission..... **37.0¢**
 With electrical refrigeration, add..... 1.1
 With gas stoves, add..... 0.3
 With beds, add..... 0.1
 With iron rear porches & steps, add.... 1.2
 With financing & sales commission, add. 2.6

THIRTY-FAMILY REINFORCED CONCRETE APARTMENT

Thirty family reinforced concrete apartment, as shown and described on pages 92 and 93, excluding cost of financing and sales commission..... **40.8¢**
 With electrical refrigeration, add..... 1.1
 With gas stoves, add..... 0.2
 With iron rear porches & steps, add.... 1.3
 With financing & sales commission, add. 3.6

FORECLOSURES IN 961 COMMUNITIES

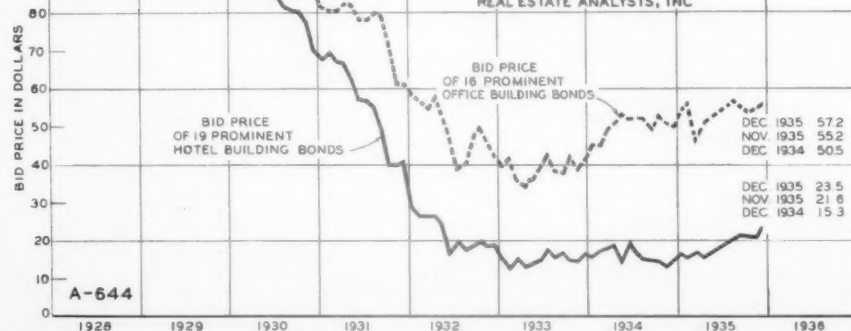
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THE small chart to the left shows the variation in the number of foreclosures in 961 urban and rural communities in the United States from January, 1932 to October, 1935. The percentage of increase or decrease in the figures from month to month can be read by the use of the small insert scale. The dashed line gives a preliminary estimate for November, which shows the drop continuing.

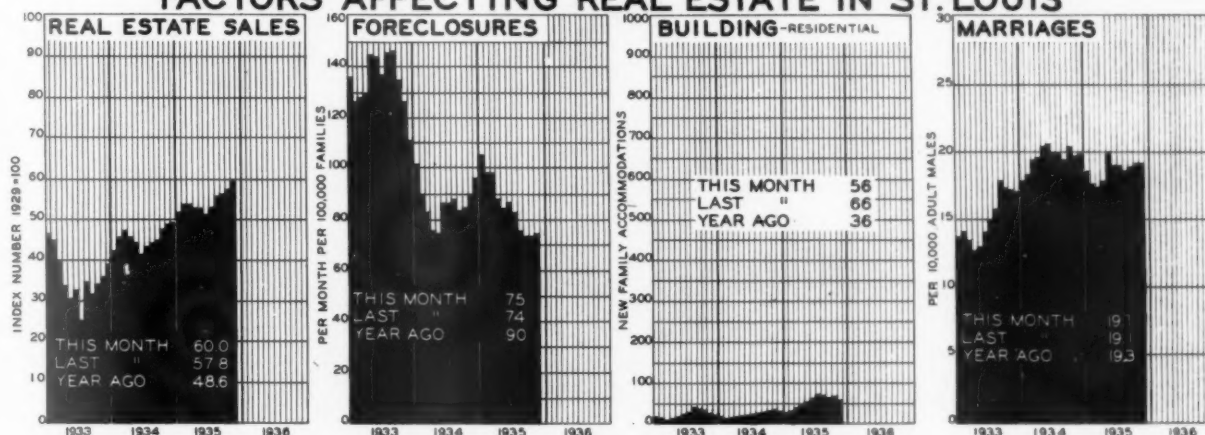
AVERAGE FLUCTUATIONS IN PRICE OF REAL ESTATE BONDS

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THE chart to the left shows the average fluctuations month by month in the bid price of a selected list of office and hotel building real estate bonds described on page 447 of the September Real Estate Analyst. These bonds show a rise for December.

FACTORS AFFECTING REAL ESTATE IN ST. LOUIS



REAL Estate Analysts, Inc., has always made an intensive study of Greater Saint Louis on the assumption that an exhaustive, precise study over a long period of years of all factors affecting real estate in a single representative community is often of greater value in determining the sequence of events in collapse and recovery than is a more general study of the entire country. In addition to the charts on this page, other Saint Louis figures are shown on pages 484, 485, 487, 488, 489, and 490.

Total residential vacancy in Saint Louis increased during the past month by 870 units--from 3.9% on November fifth to 4.3% on December fourth. This is more or less of a seasonal increase. At this time of year there is always an increase in doubling up of families in the more precarious economic levels to reduce expenses for fuel. This increase in vacancy was noticed in all types of dwelling units except "three or more family, exclusive of heated apartments". It will be noticed that vacancy increased in a similar fashion a year ago.

The number of vacant residential units at this season of the year during the past four years is shown in the following table:

Date	Number of Vacancies	Percentage of Vacancy
November, 1932	28,207	12.8
December, 1933	21,350	9.5
December, 1934	12,100	5.4
December, 1935	9,450	4.3

MONTHLY FLUCTUATIONS IN RESIDENTIAL VACANCY IN ST. LOUIS

